

A STUDY ON THE SOCIO-ECONOMIC IMPACT OF CSR PRACTICES WITH SPECIAL REFERENCE TO NUMALIGARH REFINERY LTD. (NRL)

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Abstract

Corporate Social Responsibility (CSR) is a widely acclaimed area of study in today's world when business environment has become so competitive and the world transformed to a global village. A proper implemented CSR policies and its execution has many advantages which can be reflected in their customer base, motivated employees, community support. The present study is undertaken with the aim to examine the socio-economic impact of CSR practices of NRL Ltd. - a public sector oil company. The socio-economic impact of CSR has been based on 2 perspectives - local people and environment. CSR practices in relation to local people and environment have been studied to assess the socio-economic impact of CSR practices.

Keywords: Corporate Social Responsibility, Oil Sector, Socio-Economic Impact, Environment, Local People.

Introduction

The economic development of any country depends on the business development of that particular country. In India the oil sector plays an important role in its economic growth. The growth of oil sector has its impetus from Assam. Assam credits with the discovery of oil fields in one of its districts - Digboi. Thus, oil sector has a very significant role in changing the industrial scenario of Assam as well as the lives of Assamese people. A leading oil sector company in Assam is the Assam Accord Refinery popularly known as Numaligarh Refinery Ltd. (NRL). NRL has also been conferred the status of Mini Ratna PSU because of its continuous growth track record of excellent performance in the field of production, financial results, energy conservation and safety and environmental protection.

The NRL was conceptualised as one of the most environment friendly refineries in the country. NRL has always been committed towards improving the quality of life in the society in general and that of the local community in particular and in order to achieve this, CSR concept has also occupied an important place in their corporate philosophy. Thus, NRL has been pro-active in their social responsibility right from its inception when CSR had not been made mandatory by the provisions of the Companies Act.

CSR in simple language is the commitment of the business to contribute to the sustainable economic development. Performing economic, legal, ethical and philanthropical responsibilities simultaneously by a company entails their social responsibility. The World Business Council for Sustainable Development in its publication in the year 2000 "Making Good Business Sense" by Lord Holme and Richard Watts used the following definition: "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". As

per European Commission, 2001 “CSR is the voluntary contribution of companies for a better society and a cleaner environment. It addresses complex issues such as environmental protection, human resource management, health and safety at work, relation with local community, relations with suppliers and consumers.” (Branco, 2007)

Thus, CSR has an impact on the society and on its development by working for the upliftment and well-being of the different stakeholders of the society and of the organisation as well. It is in the genesis; the present study is undertaken on NRL and its CSR practices.

Status of CSR in India:

In India, CSR was originally a philanthropic activity only. It was not mandatory for any business house to do any social activities on their own or under any legal compulsion. However, it has now evolved and extended to institution building and community development. The Companies Act, 2013 has made it compulsory for certain companies to deliver CSR. According to Section 135 of the Companies Act, 2013 w.e.f. April 1, 2014 every company operating in India;

- With an annual turnover of Rs. 1000 crores and more; or
- With a net worth of Rs. 500 crores and more; or
- With a net profit of Rs. 5 crores and more;

has to mandatorily spend 2% of its average net profit of the immediately preceding three financial years on CSR activities. Such companies are also required to constitute CSR committees to formulate and recommend a CSR policy to the Board of the company and to monitor the CSR policy from time to time. This committee needs to comprise of three or more directors, out of which, at least one director should be an independent director. The composition of the committee shall be included in the Board’s report. The committee shall formulate the policy; including activities specified in Schedule VII of the Companies Act, 2013 which are as follows:

- Eradicating extreme hunger and poverty;
- Promotion of education;
- Promoting gender equality and empowering women;
- Reducing child mortality and improving maternal health;
- Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- Ensuring environmental sustainability;
- Employment enhancing vocational skills;
- Social business projects;
- Contribution to Prime Minister’s Relief Fund or any other fund set up by the central government or the state governments for socio-economic development and relief, and funds for the welfare of the scheduled castes and tribes, other backward classes, minorities and women;
- Such other matters, as may be prescribed.

As per Rule 4 of the Companies (CSR) Rules, 2014, the following expenditures are not considered as CSR activity for the purpose of Section 135:

- Expenditure on activities undertaken in pursuance of normal course of business;
- Expenditure on CSR activities undertaken outside India;

- Expenditure which is exclusively for the benefit of the employees of the company or their families;
- Contribution to political parties.

Under Section 37(1) of the Income Tax Act, only expenditure, not covered u/s 30 to 36, and incurred wholly and exclusively for the purpose of the business is allowed as deduction while computing taxable business income. The issue under consideration is whether CSR expenditure is allowed as deduction u/s 37. CSR activities are not considered as expenses pertaining to the business and hence, they are not allowed as deductions while computing business taxable income. The rationale behind the disallowance is that CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purpose of carrying on business.

Under Section 80G of the Income Tax Act, 1961; the permissible CSR activities that are allowed as deductions from the business income are shown below:

1. Following donation allowed subject to a maximum of 10% of the Adjusted Gross Total Income:

A. Donation to government for promoting family planning etc. - 100% allowed.

B. Eligible for 50% deduction:

- Donations to government for other charitable purpose;
- Donation for housing accommodation / improvement of cities, towns or villages etc.

2. Eligible for 100% deduction without maximum limit:

- Donation to PM's National Relief Fund;
- Donation to State Government Fund for Medical Relief to the poor;
- National Illness Assistance Fund;
- Chief Minister's or Lt. Governor's Relief Fund;
- Fund to approved University or Educational Institutions of national eminence etc.

Literature Review

CSR has been a notable topic of research. CSR has got many dimensions to be studied. **Rathnasiri (2003)** studied on the CSR practices of Sri Lankan private sector which revealed that the private sector has little evidence of forming any CSR policy or providing for better working conditions for employees, gender equality, wage parity, environment preservation etc. only after the emergence of human rights movement such issues gained prominence. In congruence with this study, **Mummullage (2010)** also studied on the socio-economic impacts of CSR practices in Sri Lankan domestic manufacturing companies. The study generalised that the CSR practices of private sector are not in adequate level to make positive impact on socio-economic conditions of employees and society. Awareness level on CSR by the management had been very low except for the top-level management who had good awareness. **Patil et al., (2017)** have done an integrated review on the impact of CSR activities on socio-economic upliftment. Analysing secondary data, the study reveals that CSR has supported the upliftment of the backward parts of the society and has a positive impact on the overall development of the society and their business. **Truscott's (2009)** paper, based on case study methodology on the reputation of CSR in the industry of Australia reveals that CSR has become increasingly significant for good reputation. The industrialist viewed CSR as a model of corporate reputation.

Objectives of the Study:

The study has been undertaken to explore the socio-economic impact of CSR practices of NRL. In line with this objective, the CSR practices of the select industrial unit will also be discussed.

Research Methodology

Types of data

Both Primary data and Secondary data have been used for the study.

Sources of data

The Primary data have been collected from the local people of the peripheral area of NRL within a radius of 10 km. The Secondary data have been collected from the annual reports of NRL, various websites, published reports, journals and research papers.

Sample size

100 local people have been selected for the sample size.

Sampling technique

Convenience sampling technique has been used to collect the data.

Data collection technique

Well-structured questionnaires have been distributed to the sample. Interview and observation method have also been applied where the need has been felt by the researcher.

The present study is based on the two concerned stakeholders - local people and environment. The researcher has assessed the impact of CSR activities on these two domains in their socio-economic development. The CSR activities undertaken in the post-mandatory period is considered for the study.

Research Hypothesis:

Following research hypothesis have been formulated to fulfil the objectives of the study -

H₀₁: There is no significant impact of CSR practices on the socio-economic development of the local people

H₀₂: There is no significant impact of CSR practices on the overall socio-economic development

Statistical analysis

Correlation technique has been used to test the hypothesis.

Data Analysis and Findings:

Local people's perception on CSR practices and its impact on socio-economic conditions

100 local people have been given questionnaires as well interview method adopted to collect the data. 71 male and 29 female local people have been selected and 89% of them have been aware of the CSR practices followed

by NRL. 89% of the sample have been directly benefited from the CSR practices while 11% have been indirectly benefited. The direct benefit to the people included livelihood opportunities, community care, health and hygiene, extra-curricular encouragement.

NRL has helped to create livelihood, avenues through motivation, training and financial assistance. Swa Nirbhar, Uttaran are some of the leading schemes which have initiated to help for income generation. These schemes have been fruitful in encouraging the youths to take up entrepreneurial activities.

NRL has also developed extra-curricular activities in the form of encouragement to sports. Budding rural players are given training where by sports academy and coaching centers have been set up and coaches been appointed.

NRL has also focused on agricultural allied income generation activities. Their vision is to help farmers to go beyond mono cropping and promote multiple cropping.

The beneficiaries have been directly benefited in terms of the following –

Table 1: Benefits received by local people to promote livelihood

Parameters	Number of respondents	Percentage
Financial support to set up livestock firms	28	31.47
Financial support to set up hand-loom and power-loom	17	19.10
Financial support to open shop	21	23.60
Financial support to pursue higher education	19	21.35
Financial support to sports persons / associations	4	4.48
Total number of respondents receiving benefits	89	100

Source: Field study

The respondents revealed that through the CSR practices of NRL, they have seen an upsurge in their annual income (80% of the respondents have strongly agreed). 69% of the respondents strongly agreed that the financial support to them have helped them to be self-employed. 14% of the respondents agreed that the CSR practices have helped their family members to become self-employed. 36% of the respondents strongly agreed that the community care practices have helped them in their development. 92% of the respondents strongly agreed that the CSR practices have helped them in their socio-economic development.

CSR practices towards environmental protections and sustainability

NRL has always been working as a responsible corporate citizen testimony of which has been the award of 'Most Eco-Friendly PSU' bestowed upon by India Today in 2014. NRL has launched schemes like Suryajyoti which provides solar power as a part of environment sustainability. Infrastructure development for proper cremation of the dead has led to the proper and hygienic way of cremating the dead. NRL organises various awareness programs also towards preserving the ecological balance and to minimise man-animal conflicts. Besides that,

educational and awareness camps are organised to educate the local people and villagers nearby on the importance of proper hygiene and sanitation practices which can benefit the environment to a large extent.

Though situated at a meeting point of two key global biodiversity hot spots, NRL has been able to establish a happy ecological mosaic with the co-existence as its theme. From time-to-time pollution control measures are undertaken so that there is no adverse impact on Kaziranga and other wild life preserves. Green belt has been developed around the refinery to have minimal impact of refinery emissions on the surroundings. In fact, NRL's concern for the environment can be seen from the creation of an entire bio system for rare butterflies in the region.

Thus, NRL has made its responsibilities towards Assam and the region's socio-economic development and inalienable part of its corporate philosophy.

Environmental practices are important factor when company's CSR activities are to be analysed. Majority of the respondents (97%) have responded that NRL has always been concern about safeguarding the environment. 82% of the respondents are fully satisfied with the environmental practices adopted and 18% are satisfied to it. 92% of the respondents strongly agree to the fact that awareness camps and programs are organised on environmental sustainability. Through observation method also, the researchers could see that there have been proper sanitation practices and have visited the butterfly park, the greenbelt. The overall response to the CSR practices for environment protection by NRL have been fully satisfied.

Hypothesis Testing:

To test the two hypotheses, Pearson's Correlation Technique has been used –

Table 2: Pearson's correlation table for hypotheses testing

	The level of impact of CSR practices on socio-economic conditions of local people	The level of impact of CSR practices on overall socio-economic developments
Pearson's Correlation	0.0495	0.0460
Sig (2 tailed)	0.0051	0.0049
N (Sample size)	100	100

Significant at 5% ($p < 0.05$)

Source: Primary data

According to table 2, the Pearson's correlation value at 5% level of significance for a two-tailed test is 0.0495 for the null hypothesis, H01: There is no significant impact of CSR practices on the socio-economic development of the local people; which is less than 0.05. So, the null hypothesis is rejected and it can be concluded that there is significant impact of CSR practices on the socio-economic development of the local people.

Again, the Pearson's correlation value for the null hypothesis, H02: There is no significant impact of CSR practices on the overall socio-economic development; is 0.0460 which is less than 0.05 at 5% level of significant. Therefore, the null hypothesis is rejected and it can be concluded that CSR practices have an overall impact on the socio-economic development.

Thus, from the analysis, it can be concluded that when CSR practices are extended or improved, it can lead to development in socio-economic condition. So, there is a positive relationship between CSR practices and socio-economic development.

Conclusion

The CSR concept has gained prominence and always acted to uplift the society up to an extent. The rules and provisions have made CSR a mandatory activity and the corporate houses have to adopt CSR practices. The CSR practices can lead to the betterment and development of socio-economic conditions. This is a positive side but had these developmental practices of the corporate houses been done voluntarily, a lot more development could have been achieved. When such desire and commitment would have aroused from within, there would have been no need to introduce mandatory rules and practices. NRL has been a pioneer in this field. It has committed itself towards society since its inception and thus have been able to develop a positive relationship between its CSR practices and socio-economic development.

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